



November 28, 2006

ASVET MEMORANDUM NO. 04-06

MEMORANDUM FOR: ALL VETS STAFF

FROM:


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SUBJECT: VETS' Internal Control Program

PURPOSE: To announce and outline the elements of VETS' internal control program to fulfill the requirements and intent of Secretary's Order 14-2006, Internal Control Program, and the associated government-wide internal control mandates.

REFERENCES: Secretary's Order 14-2006, Internal Control Program; Sections 2 and 4 of the Federal Managers' Financial Integrity Act of 1982 (the FMFIA); OMB Circular A-123, Rev., "Management's Responsibility for Internal Control" (December 21, 2004); the Chief Financial Officers Act of 1990 (the CFO Act); OMB Circular A-50, Rev., "Audit Follow-up" (September 29, 1982); OMB Circular A-127, Rev., "Financial Management Systems" (December 1, 2004); the Federal Financial Management Improvement Act (the FFMIA); the Government Performance and Results Act of 1993 (the GPRA); the Reports Consolidation Act of 2000 (the RCA); Services Acquisition Reform Act of 2003; Chief Human Capital Officers Act of 2002; Clinger-Cohen Act of 1996; 5 U.S.C. § 301; 29 U.S.C. § 551, et. seq.; and Reorganization Plan No. 6 of 1950 (5 App. U.S.C.); Federal Information Security Management Act of 2002 (FISMA); OMB Circular A-130, "Management of Federal Information Resources".

SUPERSEDED: Performance Management Advisory Committee Charter

BACKGROUND: The Departmental policy in Secretary's Order 14-2006 directly implements OMB Circular A-123, Management's Responsibility for Internal Control.

Secretary's Order 14-2006 requires that DOL agencies maintain effective administrative, financial, and program performance reporting control systems for their programs, functions and resources to promote effectiveness and efficiency of operations and to prevent or minimize the

occurrence of fraud, waste, abuse, and mismanagement. The objective of DOL's internal control program is to provide, on a continuing basis, a reasonable assurance that:

- A. financial and other resources are safeguarded from unauthorized use or misappropriation;
- B. all transactions are executed in accordance with authorizations;
- C. all financial, non-financial, performance, statistical records, and related reports are reliable;
- D. applicable laws, regulations and policies are followed; and
- E. resources and programs are efficiently and effectively managed.

VETS has been proactive in recent years in the establishment of an ongoing performance management review system. The primary achievements of this effort to date have been the development and implementation of annual Internal Control Evaluation internal survey instruments that utilize VETS-oriented versions of the GAO's internal control evaluation and management tool for the federal government, and an Internal Control On-site Review Guide that also is based on the GAO's internal control standards and evaluation tool, with some additional, internal control-oriented questions derived from the Office of Management and Budget's (OMB) Program Assessment and Rating Tool (PART).

An overview of the VETS system of internal controls is described in detail in Appendix #1, VETS Internal Control Program.

SPECIFIC REQUIREMENTS OF AGENCY HEADS: Secretary's Order 14-2006 sets forth the delegations of authority and assignments of responsibility for Agency Heads with respect to the Department's Internal Control Program. See Appendix #2, VETS Internal Control Responsiveness to Specific Requirements of Agency Heads.

POLICY AND IMPLEMENTATION:

A. VETS STRATEGIC ASSESSMENT TEAM:

To facilitate meeting the mandates of the Secretary's Order and OMB Circular A-123, a VETS Strategic Assessment Team (VETSAT) will be established immediately as a senior management council, as is encouraged by Circular A-123. The primary purposes of the VETSAT are:

1. To provide strategic direction for the agency's internal control program through participation in, or oversight over, the annual completion of risk assessments at all organizational

levels and identification of agency vulnerabilities to fraud, waste, and abuse and/or mission failure.

2. To identify, annually, specific internal control objectives and targets (that is, the scope and focus of assessments, surveys and on-site reviews) and to ensure that assessment objectives are clearly communicated throughout the agency.

3. To determine the best means for carrying out selected internal control activities, e.g., using VETS staff, or contractor(s), or a combination of both, et cetera, and to ensure the availability of appropriate resources for the various internal control program activities undertaken within the agency.

4. To track and review the results of internal control activities and to ensure that appropriate remedial actions are taken within the agency.

5. To review proposed legislation (or regulations) to identify internal control deficiencies, problems or issues.

6. To review new agency guidance and/or directives, functions, and related systems to ensure that internal control issues are properly addressed.

7. To ensure that appropriate elements and standards related to internal control responsibilities are incorporated into individual performance plans.

The VETSAT will be comprised of the following members:

1. Chairman: DASVET

2. Members: Director, Legislative Affairs; Director, Office of Administration Management and Budget (OAMB); Director, Office of Programs (OP); Regional Administrators for Veterans Employment and Training (RAVET).

Primary administrative support for the VETSAT activities will come from OAMB. In the absence of the DASVET, the OAMB Director will assume the chair functions. The OAMB will establish and maintain the agency's tracking system for internal control program objectives, activities and results.

B. VETS COUNCIL OF DEPUTIES

A VETS Council of Deputies (COD) will replace the Performance Management Advisory Committee (PMAC). The primary purposes and functions of the COD are to:

1. Participate in and/or provide operational guidance and support to the development and

conduct of internal control program activities such as risk assessments, internal control surveys, on-site reviews, and risk management reviews of plans or proposals for program initiatives.

2. Review and analyze performance data from the PART, GPRA and GAO internal control perspectives to identify potential vulnerabilities to fraud, waste or abuse of resources or to mission failure, and inform the VETSAT about apparent material weaknesses that should be considered for inclusion among annual internal control program objectives, targets and activities.

3. Assist in the dissemination throughout VETS of information regarding internal control program objectives, targets, planned activities, internal control elements and standards, and internal control program results.

4. Provide guidance and other empowering support to any ad hoc work groups formed to carry out specific internal control program tasks.

The COD will be comprised of the following members:

1. The Deputy Director of the OAMB; chair
2. The Deputy Director of the OPO; first alternate
3. The six Deputy RAVETs

As with the VETSAT, the OAMB will provide primary administrative support to the Council of Deputies, and will maintain the tracking system for objectives, activities and results. In the absence of, or in certain situations, with the agreement of the Deputy, OAMB, the Deputy, OPO will serve as Council of Deputies chairman.

EFFECTIVE DATE: November, 2006

ATTACHMENTS: Appendix #1, VETS Internal Control Program; Appendix #2, VETS' Internal Control Program Responsiveness to Specific Requirements of Agency Heads
(Secretary's Order 14-2006)

November, 2006

VETS INTERNAL CONTROL PROGRAM

BACKGROUND: The term “internal control” refers to an agency’s array of policies and practices and elements of its operating structure that are intended to: prevent fraud, waste, and abuse of resources; ensure the effectiveness and efficiency of operations; ensure the reliability of program and financial activity reporting; and ensure compliance with laws and regulations. It is expected that an agency will maintain, evaluate, and report on internal control as it relates to all aspects of operations, such as human capital management, financial management, acquisition and procurement, information management and internal communications, and the provision of services.

All federal agencies are required by policy and by statutes such as the Federal Managers Financial Integrity Act (FMFIA) to maintain, periodically evaluate, and annually report on agency internal control. Each year, The ASVET must send a letter to the Secretary of Labor certifying whether or not the agency’s internal control complies with the prescribed standards, and if they do not, the ASVET must identify and report material weaknesses in any of the aspects mentioned above, and the agency’s plans and schedule for correcting the identified weaknesses.

The Government Accounting Office (GAO) maintains the *Standards for Internal Control in the Federal Government*. That document—which can be found on the GAO web site—provides the overall context for understanding the concept of internal control in the federal government. There are five distinct standards for internal control which cover all of the activities of federal agencies: control environment, risk assessment, control activities, information and communications, and monitoring. The GAO has succinctly stated the standard for each:

Control Environment: Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

Risk Assessment: Internal control should provide for an assessment of the risks the agency faces from both external and internal sources.

Control Activities: Internal control activities help ensure that management’s directives are carried out. The control activities should be effective and efficient in accomplishing the agency’s control objectives.

Information and Communication: Information should be recorded and communicated to management and others within the agency who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

Monitoring: Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

The GAO also developed and maintains a document of approximately 180 pages titled, *Internal Control Management and Evaluation Tool*. The *Tool* is divided into five major sections, one for each of the five standards, and each section contains a list of major factors to be considered when reviewing internal control as it relates to the particular standard. The GAO developed the *Tool* for usage by individual agencies “as is,” or to serve as a prototype for agencies to use in developing their own internal control tool(s).

REFERENCES:

- GAO Standards for Internal Control in the Federal Government (GAO/AIMD-00-21.3-1, November 1999)
- GAO Internal Control Management and Evaluation Tool (GAO-01-1008G, 8/01)
- OMB Circular A-123, Management Accountability and Control (December 2004)

INTERNAL CONTROLS IN VETS: As is true in all agencies, most “internal control activities” appear as routine steps in recurring processes, e.g., the segregation of duties in the related functions of timekeeping and authorizing pay and leave accruals/charges. Some internal control activities are duties routinely performed by staff designated as managers or supervisors. But many internal control activities are performed by non-management personnel. In some way or another, just about all VETS staff members are involved in “internal controls.”

Agency documents such as Veterans Program Letters and Director’s Memoranda routinely set forth internal control activity requirements and processes without labeling them as internal control work. Internal controls are embedded in routine operations, ranging from basic administrative processes such as those designed to ensure the accuracy of time and leave records, to more complex operations such as USERRA processes for ensuring the adequacy of issue identification and applicable law prior to closing a “no merit” case, or the process of modifying a grant agreement.

VETS INTERNAL CONTROL PROGRAM: To be effective, an internal control program must encourage and protect the free exchange of information about the status of internal controls in the agency. It also should complement rather than duplicate or compete with program assessment operations, personnel appraisal systems, or rule-making processes.

The VETS internal control program is established under an ASVET Memorandum pursuant to the principles, guidelines and Departmental internal control program structure

set forth in the relevant Secretary's Order. A senior management council called the VETS Strategic Assessment Team (VETSAT) provides leadership and direction to the program. Annually the VETSAT convenes to complete a risk assessment process, establish appropriate objectives and targets for the agency's internal control program activities, estimate and allocate the resources necessary to carry out those activities, establish appropriate elements and standards for personnel responsible for internal control program activities, and initiate intra-agency communications regarding the strategic internal control program plan for the coming year.

At least once each quarter the VETSAT is convened, sometimes wholly or in part through teleconferencing rather than in person, to review progress with respect to the annual objectives and to adjust the plan as necessary.

Internal control program activities at the operational levels are led and/or performed by a work group called the VETS Council of Deputies (COD), comprised of the second-in-command of the six VETS regions and the two divisions of the National Office (i.e., the Office of Program Operations and the Office of Administration and Budget). This group is charged with the responsibility, and is authorized to conduct various activities designed to attain the objectives set forth in the annual plan.

The Council of Deputies convenes in person at least once per year to plan its activities, which may include setting up ad hoc work groups designed and staffed (with VETS staff and/or contracted specialists) to deal with specific internal control objectives from the plan developed and approved by the VETSAT. The Council of Deputies fleshes out the internal control plan established by the VETSAT with specific milestones and timetables to create a comprehensive management plan to help ensure achievement of the program objectives. It convenes via teleconference at least once each month to discuss progress, vulnerabilities, and new challenges, and to adjust the operational plan as necessary. Quarterly it provides progress reports to the VETSAT, along with advice regarding any new internal control vulnerabilities or challenges that the VETSAT should consider.

VETS uses a myriad of tools and approaches to evaluating its internal control situation. One method that the agency has developed to accomplish risk assessments on a regular basis is creation of its own Internal Control Survey instruments; one version for managers and another for non-management personnel. Both are modifications of the GAO's internal control evaluation tool, and both are subject to on-going modification to ensure continuous improvement of the process. Both are designed for usage in an annual agency-wide survey, and are designed to minimize the time required for respondents to identify what they perceive to be internal control problems. A key principle associated with the non-manager survey is that it is conducted in such a way as to provide anonymity to respondents, to encourage issue identification in lieu of dependence upon whistleblower activity.

The survey data are compiled and analyzed at the appropriate levels to identify vulnerabilities to fraud, waste, and abuse of resources, and evidence of mismanagement or other threats to mission/goal achievement. Findings are reported to the Council of

Deputies and VETSAT, and also are shared internally with field operations management and program management officials for the purpose of planning and implementing actions to correct or improve internal control situations.

VETS also supports internal control on-site review teams to evaluate internal control situations, using a standardized on-site review instrument and review process. The review instrument features a list of questions derived from the GAO's Internal Control Evaluation Tool and from the OMB's Program Assessment Rating Tool (PART). The review team focuses those questions on specific work processes that are identified (i.e., targeted) prior to going on-site. The targeting mechanism may be information gleaned from one of the aforementioned surveys that suggests need for scrutiny, or audit information received from external sources, or could be simply reflective of the strategic direction set forth in the annual plan.

Typically VETS will conduct on-site review in at least two regions annually, so that all regions are scrutinized in that manner in a three-year period. On-site review teams are comprised of COD members and field staff volunteers with requisite experience and expertise in financial and program operations. An on-site review entails pre-visit compilation of information relevant to how certain work processes are conducted in the region and which staff are involved in those processes, on-site interviews with key staff from the region, and on-site review and analysis of related program or administrative records to substantiate (or not) interview and pre-visit findings. The on-site time typically is no more than one week.

A secondary goal of the on-site reviews is to examine the efficacy of the survey instruments and/or other risk assessment data gathering processes, and to determine if modification of the instruments and/or the data-gathering process should be undertaken.

A key principle of the on-site reviews is that they focus on the presence or absence of internal controls within work processes and the efficacy of those controls and the overall control environment, rather than on the actual decisions made by program or administrative staff involved in the selected work processes. The purpose of the internal control program is not to second-guess, ex post facto, the quality of decision-making by staff, but rather to focus on the adequacy of controls within processes and make determinations as to the need for process improvements. That distinction is intended to ensure that internal control program activities are not personalized, do not infringe upon routine human resource management or labor-relations activities, and most of all, to encourage full cooperation by all VETS staff in identifying and fixing internal control problems.

The on-site review process is designed to ensure that conclusions regarding internal control deficiencies are identified before the review team leaves the site, so that a comprehensive exit discussion with the Regional Administrator and other key staff results in agreements as to corrective actions that can and should be initiated locally, and those which are agency-wide deficiencies are elevated to the appropriate National Office

component for remedial action are immediately identified. All findings are shared with both Council of Deputies and VETSAT members.

The internal control program also has impacts on the agency's processes for dealing with proposed legislation and /or regulations and new program initiatives. In addition to the typical programmatic and cost analyses to which proposed rules are subjected, the VETSAT will ensure that such items are scrutinized with regard to the risks that the agency would incur should the proposals become part of the statute. Proposed program initiatives, whether they emanate from legislated requirements, new regulations, or executive fiat, will be subjected to a standardized risk management analysis to ensure that such risk areas as cost/budget, schedule, scope/requirements, communication, management support, staffing and resources, technology, quality control, identification of users and customers, and security/privacy/safety are properly considered and risk mitigation measures are established in response to perceived threats.

Appendix #2
VETS' Internal Control Program Responsiveness to Specific Requirements of Agency Heads
(Secretary's Order 14-2006)

Specific Requirements of Agency Heads	VETS Lead Office or Entity	VETS' Internal Control Program Elements
1. Ensure that appropriate internal controls are in place and operating effectively for their respective agencies.	VETSAT	ASVET Memorandum issued that implements Secretary's Order: Establishes oversight mechanisms: VETS Strategic Assessment Team (VETSAT) (similar to ICB), and Council of Deputies (implements parts of internal control program)
2. Include in their agencies' internal control program(s): a. regular risk assessments	VETSAT and COD	Regular financial and programmatic risk assessments conducted by VETSAT and COD
b. review of high risk components and activities	COD	1) Surveys conducted to determine extent of high risk components and activities; 2) COD conducts special on-site reviews of high risk components and activities identified through risk assessments and surveys
c. Cooperation with the Government Accountability Office (GAO) and the DOL Inspector General (OIG) in the conduct of external reviews and audits of agency components and follow-up actions	OAMB	OAMB assigned lead responsibility to ensure effective coordination with GAO and the OIG on reviews and audits, and follow-up actions
d. Follow-through on corrective actions relative to internal control weaknesses in agency systems identified through agency or external reviews, assessments, or other evaluation efforts	OPO, OAMB, RAVETs	VETSAT makes recommendations to DASVET/ASVET to assign corrective actions to appropriate office. The COD conducts regular meetings to review status of corrective actions
e. Maintenance of documentation and responsive reporting on agency internal control program activities	OAMB and OASAM's OFMO	VETS Administrative Officer and VETS Financial Officer
3. Ensure that internal control responsibilities and results are included in performance standards and appraisals of appropriate agency managers	DASVET, OAMB, OPO, RAVETs	VETSAT will provide oversight to ensure that internal control responsibilities and results are in agency managers performance standards
4. Upon discovery, immediately report any significant Internal Control System breakdowns to the Chief Financial Officer (CFO) and Assistant Secretary for Administration and Management (ASAM), Chief Information Officer (OCIO), Chief Acquisition Officer (CAO) or Chief Human Capital Officer (CHCO) as relevant.	DASVET	1) VETSAT and key agency managers trained on OMB Circular A -123 requirements, including the reporting of significant internal control breakdowns
5. In conjunction with the Department's Internal Control Board (ICB), institute internal agency procedures providing for the review of new program activities, proposed legislation and new or revised regulations, functions, or systems to ensure that adequate controls and safeguards are incorporated for increased efficiency and reduced risk.	VETSAT and COD	Addressed by ASVET Memorandum on internal controls. The VETSAT and COD will develop and implement a regular risk management process using established risk management techniques and practices.
6. Submit to the CFO quarterly and annual FMFIA and FFMIA compliance attestations for their respective agencies in accordance with guidance provided by the CFO, including the status of internal controls within their respective agencies.	OAMB and OASAM's OFMO	Ongoing activity. VETSAT will provide new oversight
7. Coordinate with the respective Internal Control Principal(s) where applicable to improve efficiency for all agency internal control requirements.	VETSAT	Establishment of VETSAT, the agency's oversight and coordinative internal control body, is composed of agency Internal Control Principals